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SUBJECT: VOIP: CANADA CONFIRMS IT WILL REGULATE INTERNET-
BASED TELEPHONY

REF: 04 OTTAWA 0924

1. Canada's communications regulator has confirmed a decision which it foreshadowed in April 2004 (reftel): that its existing telecoms regulatory framework will cover "voice over Internet protocol" services when VOIP is used for local calling. (The decision, by the Canadian Radio-Television and Telecommunications Commission or CRTC, is available online at www.crtc.gc.ca -- Telecom Decision 2005-28).

2. While this approach contrasts with the U.S. FCC's free-market approach to VOIP, the CRTC stresses that its intention is not to regulate, but to create sustainable competition in local phone service - which in Canada remains dominated by two incumbents. This view is supported by the fact that the major telcos, Bell and Telus, expressed disappointment at the decision. Bell and Telus both offer a wide range of wireline, wireless and Internet services across most of Canada and, while they are challenged in some areas by cable firms and smaller players, they clearly thought they could do well in unregulated VOIP.

3. Competition in communications services in Canada has been driven as much by technology as by regulatory change. While the CRTC adopted pro-market rhetoric a decade ago, progress has been slowed by a number of factors, including:

-- Restrictions on foreign ownership (currently limited to 46.7 percent), which mean that U.S. and other foreign-owned players can only enter the market as minority partners.

-- Continuing desire by the GOC to use its regulatory control over large, profitable incumbent telcos in order to achieve public policy goals (such as promoting "connectedness" of poor and remote communities).

-- Resistance to deregulation by Canada's "cultural policy" establishment, which believes that loosening restrictions on the telecom industry will inevitably loosen the GOC's grip on broadcasting and other media.

-- Lack of reform of the CRTC's cumbersome structure and very slow processes. Most players acknowledge the need for such reform, but concrete steps have been delayed for a variety of political and institutional reasons.

4. In this context, it may not be "deregulation" but rather technology-driven change -- such as the arrival of VOIP and the offering of telephone service by cable TV and perhaps even by electric power firms - that brings Canadians greater competition in phone service.

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